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SUBJECT: Canadian Auto Workers Strike Deal with Ford

Ref: (A) Toronto 123 (B) Toronto 32 (C) 07 Toronto 457

Sensitive But Unclassified - Please Protect Accordingly.

¶1. (SBU) The Canadian Auto Workers (CAW) union has tentatively agreed with Ford Canada to freeze wages and reduce vacation pay in their new three-year contract, which will enter into force on September 17, 2008. The agreement enables the union to avoid the two-tiered wage system introduced in the Ford contract with the United Auto Workers union in the U.S. last fall, but means that Ford's Canadian auto manufacturing operations will remain much higher cost than elsewhere.

¶2. (SBU) CAW President Buzz Hargrove held meetings early in the spring with all three of the Detroit auto makers in hopes of jump-starting negotiations (ref (A)). The CAW has never reached a deal or even chosen a target company with which to negotiate this early in the process; negotiations typically begin in July. Hargrove said this so-called master economics offer will be the centerpiece of CAW-Ford negotiations to finalize local plant issues later this week, and will likely be voted on next weekend. If a deal is reached and approved by the union membership, the CAW will move on to negotiate with the Canadian units of GM and Chrysler, in what the union believes will follow the traditional pattern of bargaining in Canada, where a deal with one auto company becomes a model for contracts with the other two.

¶3. (SBU) A contact at Ford told us on April 28 that the company was pleased with the tentative agreement with the CAW. Demand for the Ford Edge and Lincoln MKX crossover utility vehicles, built at Ford's Oakville, Ontario assembly plant, along with the new Ford Flex CUV, which will be added to the production lineup in July, has been hot, and the company is ramping up to meet production goals (ref (A)). Hargrove told us on April 28 that he is relieved that a tentative deal has been reached with Ford.

Details of Tentative Agreement

¶4. (U) The CAW has agreed to the wage freeze, co-payments for prescription drugs, and a progressive pay system for new hires over three years (starting at 70% of base wages, but by the third year, new hire compensation will match that of existing employees). The union has also agreed to a cost of living adjustment (COLA) freeze for all workers until December 2009, when COLA increases will resume. Ford has agreed to pay employees a C\$2,200 "productivity and quality" bonus if the agreement is ratified next week, as well as compensate workers for reducing their vacation pay by 40 hours per year, with a C\$3,500 cash payment in January 2009. Pensions will be indexed to inflation for retirees in the second and third

years of the agreement. Ford's assembly plant near St. Thomas, Ont., which was scheduled to be closed in 2010, and has been operating on one shift since last year, will be kept open another year. The company has agreed to work with the CAW to find a new product to replace the full-sized cars produced in St. Thomas (Crown Victoria, Mercury Grand Marquis, and Lincoln Town Car).

15. (SBU) Comment: While the CAW-Ford negotiations are running smoothly, CAW deals with GM and Chrysler are expected to be more difficult to reach. On April 28, GM announced more shift reductions at its North American truck operations, reducing its Oshawa, Ontario truck production to one shift and slashing 900 jobs. With slackening demand for larger vehicles, the CAW will not be able to use the production demand card it could play with Ford as a bargaining chip with GM or Chrysler. The Detroit Three also had hoped to narrow the C\$30 per hour cost gap with U.S. operations of Japanese automakers, and the deal fails to do that. End Comment.

NAY